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BUSINESS CONDITIONS & FORECASTS

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AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

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The President's Scratch-Pad

¶ Industry at last seems to be really awakening to the possibilities that exist in the application of industrial psychology. It only seems a few years ago that a handful of progressive and forward-looking companies were beginning to explore this subject—and these only in the most tentative, experimental fashion. Now, we can count dozens of concerns that are making practical and profitable use of industrial psychology.

¶ What has happened to cause this wider acceptance of this relatively new and highly useful tool of management? In the main, probably two things: One has been a better understanding by the public of what psychology is. While the man in the street was once inclined to regard psychology as an occult art, he has now begun to realize that it is prosaically based on painstakingly-gathered statistics and careful scientific deduction; that it is nine-tenths horse sense, formalized into a body of scientific principles. The other factor has been the achievements of the pioneer workers in this field.

¶ Much of this current acceptance goes back to the work of such men as Elton Mayo and T. North Whitehead, both of whom had unusual capacity for translating their observations in terms that were easily understandable to the layman.

¶ The now historical work performed by the Western Electric Company was a strong inspiration to industry, because of the light it cast upon human behavior in a real working atmosphere. This led to other developments in the field, and step by step, practical uses of industrial psychology were made more apparent.

¶ Of course, a note of caution must be sounded. Psychology is not for dilettantes and dabblers. It is a tool to be used only by fully qualified individuals.

¶ Because of the keen interest of executives in this field, the AMA will no doubt continue to report the progress that is made from time to time. And it is my belief that there will be much to report.

Alvin E. Dodd

Personnel Conference Draws 1,500 Executives From Many Industries

Fifteen hundred executives from industries throughout the United States gathered in Chicago on February 14-15-16, for the 18th annual meeting of AMA's Personnel Division. It was the largest conference, not only from the standpoint of attendance, but from the number of sessions that composed it, that this Division of AMA has ever sponsored.

The sessions not only attracted industrial relations and personnel executives, but men from various other managerial posts, such as presidents, general managers, production managers, sales executives, etc. The large attendance and the presence of such a wide variety of executives representing nearly every phase of management and every important industry in the country gave an indication of the importance that personnel administration has now assumed in the management of industrial organizations.

The dominating note of the conference was struck by J. Walter Dietz, Vice President of the AMA Personnel Division, and Personnel Relations Manager of the Western Electric Company.

MANY VALUABLE PAPERS

Every session of the conference was packed to capacity, and interest ran high in all topics considered in discussions. Of especial interest were those bearing on the subject of pension plans, collective bargaining, training, the use of psychology in tests, and job evaluation and wage standardization. Discussion of these topics "overflowed" the formal program sessions, and went on in the evenings in the form of "bull sessions," in the hotel's private dining rooms.

Intended as a forum for the discussion of the most pressing current industrial relations and personnel problems, the conference produced many outstanding papers, and in its three-day span was concentrated the best present-day thinking on the management of the human factor in industry.

BUSINESS OUTLOOK

Decline Under Way, But It Is Expected To Be Short

Industrial production declined by more than six per cent from December to January, by about four per cent during January, and may well decline further during February. Thus there are plain indications that the business trend is curving downward. Most of the observers contributing to the summaries on the inside pages of this LETTER are of the opinion that the current decline is a short term movement and that it will not assume serious proportions, unless the country enters upon a deflationary period—a development that is considered unlikely while the wars continue.

But while the trend is downward, business generally cannot be called poor. Whether the situation is to be considered disappointing or not depends upon the viewpoint. Compared with the last quarter of 1939, the trend is downward. Compared with a year ago, and with the other years of the depression, except 1936 and 1937, it is safe to assume that business activity through the first quarter will be larger, employment greater, and earnings for the most part higher.

GOOD BASIC CONDITIONS

Most economists seem to be in agreement on one important point: That is that the movement of business during the latter part of 1939 was remarkably free of boom symptoms, even though production and demand for goods might well have fostered such a spirit. The commodity and security markets rose only moderately and then ceased to make upward progress. Wages did not greatly increase, nor has there been an increase in strikes. Depressions of the past, they point out, have been ushered in under reverse conditions as far as these factors are concerned. This augurs well for the months ahead.

The European conflict has had no sharp effect as yet upon business, but as it drags on, it is expected inevitably to exert a profound, even though subtle influence upon the course of American trade.

BUSINESS CONDITIONS & FORECASTS

VOL. 13, No. 2 — PREPARED MONTHLY BY THE AMERICAN MANAGEMENT ASSOCIATION —

	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	National income declined in December for the second consecutive month; it will probably also decline in January and February, but the movement is likely to halt in March; under any conditions, the prospect is that national income for the first three months of 1940 will be at a higher level than in the same period of 1939 (Feb. 17).	Though intense wintry weather in important sections of the country has the immediate effect of curtailing trade activity, and thus tends to prolong the current readjustment in business, the later effect should be to accentuate the upward impulse normally imparted by spring (February 17).	Indications are that business may reach a bottom in March or April and flatten out for a month or two around the low; the beginning of an upturn late in the second quarter is not too much to expect; it appears that we are in the tail-end of the recession (February 24).
Money and Credit	Money in circulation in the U. S. declined during January from \$57.71 per capita to \$55.99, but the figure at the end of the month is still higher than a year ago when it was \$50.87; gold continued to flow into the U. S. with imports during the week ended Feb. 7 amounting to \$54,605,000 (February 17).	While bond prices eased slightly early in the past month, the narrow range of price fluctuation and recent firming tendency signify stability; new all-time highs in excess reserves and bond investments reported by member banks reflect continued accumulation of idle funds (February 10).	
Security Markets	While the market rose above the computed trend momentarily in the last week of January, the recent strength lifted it more decisively above the trend line; not too much can be taken for granted from this, but the movement has an obviously favorable implication; the last sustained rise above the trend was in early September.	Following the increase in trading volume on the previous week's rise in stock prices, the most significant aspect of the market's behavior has been for activity to dry up on recessions; after signs that selling pressure is absent, if the volume should pick up on an advance, the signs would be encouraging (February 17).	The stock market refused to be frightened by Britain's mobilization of its nationals' holdings of American stocks; prices have remained unruffled, and the market has received inspiration from the jumps in copper and wheat (February 24).
Production	The seasonally adjusted index of industrial activity during the week ended Feb. 3 staged its fifth consecutive decline, dropping to the lowest since last Sept.; actual output of steel has declined from 71.1% of capacity last week to 68.8% this week; this output is still excessive and a further recession is in prospect (Feb. 17).	The immediate future will probably see further curtailment of production—until inventories are sufficiently reduced; by spring, however, the basic recovery forces, plus some foreign orders, are expected to generate renewal of the major expansion (February 3).	The slackening of the decline in the steel rate and the steady auto production indicate the end of the recession; a textile decline, however, is still ahead (February 24).
Distribution	Department store sales were 9% larger during the week ended Feb. 3 than a year ago; General Motors reports that it sold 120,909 autos to consumers in January, the highest figure for any January on record, although fewer cars were sold than in December (February 17).	Heavy snows and cold weather are hurting trade of retail stores and of auto dealers; but with consumers' incomes fairly high, such business is merely postponed; and approach of spring could well bring a wave of buying (February 3).	In autos, weekly production has dropped off a trifle; but retail sales early this month were so encouraging that manufacturers revised their schedules; auto output should be a supporting business influence over the nearby weeks (February 24).
Construction	The unfavorable trend shown by the building industry in December was extended in January; the decrease this year exceeded the usual amount; fundamental factors in building are unfavorable; rents have recently shown weakness, while building costs have firmed; these trends are not conducive to building expansion (Feb. 17).	Programs for construction of factories are revealing gains; even though there was a sharp rise in industrial building contracts in the last quarter of 1938, the same quarter of 1939 was able to score a bigger percentage gain than did the earlier periods of the year (February 3).	
Agriculture	Shipments of agricultural products in December showed only a slight recession from the November volume (February 17).		The sharp jump in wheat prices—motivated by poor European crop prospects and Russian buying of grain in this country—pinched the shorts and carried the promise of more money in the American farmer's pocket (February 24).
Commodity Prices	In the week ended Feb. 3, the price index of farm products rose from 66.0 to 66.3, offsetting the decline which was evident last week; the price index of manufactured goods, on the other hand declined; consequently the purchasing power index increased from 76.1 to 76.6 (February 17).	In view of the fact that the effect of a prolonged war is very likely to be inflationary, commodities appear to be down to a level where they could readily respond to another buying movement—whether inspired by foreign developments or domestic recovery influences, or both (February 3).	Though commodities in general have not shown concerted strength, the burst of buying in both wheat and cotton should not be too quickly laid by as "irrational." Moves such as these are frequently the tip-off to a broad buying wave, and commodities may become a significant business indicator in the immediate future (Feb. 24).
Labor and Wages	Factory payrolls in December continued the upward trend which began in August, reaching the highest level in 26 months. The payroll index on the basis of 1923-25 as 100 rose to 103.9 in Dec. from 101.8 in Nov. and from 84.4 in July; compared with the index in Dec. 1938, the present index showed a gain of 19.3% (Feb. 10).		A high level of exports would contribute significant support to employment and payrolls in this country; in effect, exports represent the employment of American workers by foreign consumers; but it is still too early to count on the present rate of exports to continue (February 24).
Foreign Trade and Conditions	The year 1939 ended with a sharp spurt in the export trade of the U. S.; the value of merchandise exported in December, totaling \$368,000,000 as against \$269,000,000 in the same month a year ago, was at the highest level since March 1930 (February 10).	Based on continued war, it is indicated that total exports from the U. S. will show a further rise, and shipments to the Allies will increase especially; Latin American trade should grow also; products that should lead export gains include: airplanes, engines, steel, oil, trucks, machinery, equipment, and chemicals (Feb. 17).	Foreign trade has assumed a new importance in the near-term business prospect; exports in January, at the highest level since spring, 1930, were running at the rate of more than \$4,000,000,000 a year against the more recent yearly totals of \$3,000,000,000 (February 24).

Dun's Review

The recession in industrial production during the first two months of the new year has erased the gain made in the last quarter of 1939; consumer income has suffered, but retail buying continues at a fairly high level; business sentiment, although cautious, is not gloomy (March).

Bank clearings (22 cities) totaled \$23,922,037 in January, or 10.1% below December and 3.2% above January, 1939; the adjusted Insolvency Index (Failures) stood at 54.6 in January, compared with 64.3 in December and 69.9 in January a year ago (March).

Stock price averages recovered moderately during the first half of February, after losing ground steadily in January; security issues for new capital in January were the largest since last July (March).

Industrial schedules declined steadily in response to rapidly shrinking order backlogs; the FRB adjusted index of production, exaggerating the recession because its statistical correction calls for a rise in January, was estimated at 120, compared with 128 in December (March).

Under the influence of adverse weather conditions, retail trade volume declined somewhat more than seasonally in January, although remaining well above last year; the U. S. Trade Barometer for December, at 100.5, was only moderately below the peak for the decade recorded in December, 1936 (March).

The volume of building permits (215 cities) countered the usual seasonal trend in January to rise moderately above the December total; permits were valued at \$84,632,147, or 9.6% below the figure for January, 1939 (March).

A further decline in commodity price indexes reflected cautious purchasing policies; in mid-February the Daily Wholesale Price Index registered 118.52, compared with 123.34 at the beginning of January (March).

Merchandise exports in January amounted to approximately \$358,000,000, about the same as the December near-record total; compared with the figure for a year ago shipments were up 70% (March).

Cleveland Trust Company

The reason we have had just a little business boom lasting four months is that when the war started business men made preparations that would have been prudent in 1914; now a new business relapse is under way; it is not as yet very serious; but the fundamental impediments to recovery still exist (February 15).

Apparently corporate profits per unit of production are progressively declining, and this shrinkage is evidently especially serious in periods of high level production; the condition is serious, and will become more serious if present trends continue (February 15).

Important increases in the current consumption of durable goods still hinge on large advances in the volume of new capital issues of corporations; so far there is no strong evidence that such advances are in near-term prospect (February 15).

The almost phenomenal increase in production which took place in the final four months of 1939 was concentrated in the outputs of durable goods; that exceptional and temporary demand has now largely been satisfied, and production has begun to decline toward more nearly pre-war levels (February 15).

By 1929 the freight carried by the railroads was only 94% as great as the volume of production indicated that it should have been; the disparity grew greater and by 1932 the freight carried was only 84% as much as that which would have been derived 10 years earlier from the same volume of national production (February 15).

If there were a large increase in the volume of construction, it would be one of the greatest benefits to the railroads which have little fear of competition in the carrying of building materials (February 15).

Almost 3,900,000 factory workers were engaged in producing durable goods as the old year drew to a close, and that number is about 7% below the total we should expect under normal conditions after full recovery (February 15).

Our exports have increased in the last four months, but unless far more numerous and larger war orders are placed than those that have so far been made, our economy is back in the same situation it was in when the war started (February 15).

National City Bank

The slackening in new buying in the last few weeks may be ascribed both to satisfied requirements, and to a better-considered view of the prospect for the early part of 1940; but as the season advances new requirements will have to be filled and there is apparent intention to keep well-covered while the war lasts (February).

Contrary to the trend in investments, loans of reporting banks declined in January, resulting in a lower level of total earning assets than in December; deposits, however, expanded rapidly under the combined influence of declining note circulation, inflowing gold and Treasury expenditures, reaching levels higher than ever (February).

Corporate financing in January, aggregated about \$165,000,000 of which \$135,000,000 represented refinancing; while the volume of new capital asked for continues disappointingly small, the total of \$30,000,000 in January was larger than in recent months (February).

Industries have been cutting into their backlogs of unfilled orders in some cases at a fairly rapid rate; however curtailment is by no means general; machinery and equipment industries are running strong; the decline in steel orders and operations has been sharper than expected; textile mills are beginning to need new orders (February).

A good level of retail distribution is one of the strong points in business; department store sales improved after Christmas, when cold weather provided a stimulus, and for December dollar sales (seasonally adjusted) were higher than in any month of 1936-37, although prices were lower; mail order houses are doing well (February).

The construction industry is off to a none too good start in comparison with 1939, for contract awards in the first three weeks of January were 21% lower—due certainly, however, to the decline in public work; mortgage applications selected by the FHA for appraisal have run slightly behind a year earlier (February).

Exports of farm products since the war began have decreased while those of manufactured goods have increased; farm exports have suffered from trade and currency controls, from lowering of living standards abroad to finance armament, and now consumer rationing; declines in farm exports is believed likely to continue (February).

Some farm prices advanced during January, for seasonal reasons, but the gains have been absorbed by losses elsewhere; non-ferrous metal prices have weakened, and copper production curtailment can be expected unless demand revives (February).

Export figures for four months show that during that period our trade improved considerably; disruptions due to the war have appeared, but on the whole the gains have exceeded the losses; in 1914 our trade decreased during the first four months; at that time Germany took 15% of our exports, while in 1938 it took only 3% (Feb.).

Special Management Sessions on April 11

(Continued)

information on major policy questions in an atmosphere of intimacy and informality. No reports will be given to the press. To obtain full value from this special meeting, heads of companies and executives with policy-deciding responsibilities should plan personally to attend.

Speakers and discussion leaders will be men of outstanding ability. The program as so far developed includes the following topics:

What Is Good Management in Terms of Today's Needs? **H. P. Kendall**, president, The Kendall Company; **Clarence Francis**, president, General Foods Corp.

The Director's Job—A Part of Management. **Thomas Roy Jones**; **Sidney J. Weinberg**, partner, Goldman, Sachs and Company; **Lewis H. Brown**, president, Johns-Manville Corporation; **Carle C. Conway**, chairman, Continental Can Company, Inc.

A luncheon is planned to provide an opportunity for those in attendance to get acquainted and talk with others informally between sessions.

Sales Personnel Problems To Feature Discussion At Marketing Conference

Problems in dealing with sales personnel, methods of market research, and the use of sales presentations are among the topics that will feature AMA's Marketing Conference to be held on April 24-25 at the Hotel Roosevelt, New York City.

Two of the country's leading sales executives, **E. O. Shreve**, Vice President of General Electric Company, and **Irwin D. Wolf**, Vice President of the Kaufmann Department Stores of Pittsburgh, are the AMA Vice Presidents who planned the session.

Wide field checks with the Association's members disclosed intense interest in problems bearing on sales personnel problems, such as the selection, training and compensation of salesmen. All these divisions of the subject will be treated in the Conference, which annually brings together sales executives from nearly every major industry in the United States.

SALES PRESENTATION CONTEST

The discussion of sales presentations—the printed kits used by salesmen to illustrate product values—will be featured by a competition for excellence in these presentations. Member companies of AMA have been invited to submit presentations for the contest in three classifications: those used to sell to dealers, those for industrial users, and those for consumers. Companies wishing to par-

At the afternoon session the program will be:

Stabilizing Employment—A Challenge to Management. **R. R. Deupree**, president, The Procter and Gamble Company; **Jay C. Hormel**, president, Geo. A. Hormel & Co.; **Albert W. Hawkes**, president, Congoleum-Nairn, Inc.; **Marion B. Folsom**, Treasurer, Eastman Kodak Company.

Today's Thinking on Pricing and Inventory Policies. **Dr. Edwin G. Nourse**, director, Institute of Economics, The Brookings Institution.

At the evening session the National Management Council will hold its annual dinner meeting. **William Hard**, noted journalist, radio commentator and special staff writer for *Readers Digest*, will speak on the topic, "Management and National Unity."

A feature will be the presentation of the International Committee of Scientific Management Gold Medal to **Harry Arthur Hopf**, senior member, H. A. Hopf and Company. The address on the significance of the award will be given by **Dr. Dexter S. Kimball**, dean emeritus, Cornell University College of Engineering.

ticipate in this competition, which will be judged by authorities in the sales promotion field, should send their presentations before March 30, or as soon thereafter as possible.

INSURANCE CONFERENCE SET FOR MAY 6-7 AT ATLANTIC CITY

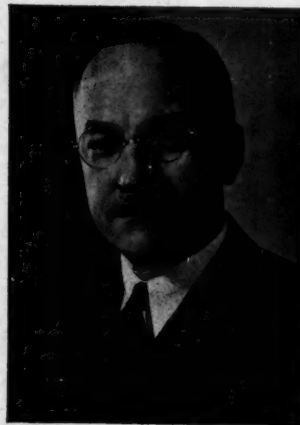
AMA's Insurance Division will hold its Spring Conference at the Hotel Traymore, Atlantic City, New Jersey, on May 6 and 7, it was announced this week by **Ralph H. Blanchard** of the Columbia School of Business, Vice President of the Division.

A wide variety of subjects will be discussed, and the system of concurrent sessions which featured the one-day meeting of the Insurance Division last December will be employed. As presently planned, the session will run as follows: The opening morning will be given over to a Question-and-Answer session at which Mr. Blanchard will preside. In the afternoon there will be concurrent sessions devoted to liability and compensation, bonding, boiler and machinery coverage, and fire insurance problems. Buyers of insurance will preside at these sessions while insurance company representatives will act as technical advisers. On the second day there will be three subjects of discussion: Insurance Problems of Clients of Large Banks; Self-Insurance; and Changes in the Standard Fire Policy.

Making Plans For Top Management Meeting



W. L. BATT
Chairman of Board, AMA



THOMAS ROY JONES
Chairman, Executive Committee, AMA

Cost Reduction To Be Theme At Production Sessions

Steps in the development of a cost reduction program will be the central theme of AMA's Production Conference which will be held in New York City on May 22-23. The Conference will in effect show the way to an over-all company approach to cost reduction by drawing illustrations from the experience of companies in various lines of manufacture.

Committees working under the direction of **Raymond S. Perry**, Vice President, Ingersoll Milling Machine Company, and Vice President of the AMA Production Division, have found through checks in the field that there is almost universal interest in methods of getting foremen and worker cooperation on cost reduction. This aspect of the problem will be extensively dealt with.